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**Record of interview:**

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Alkane Resources Ltd (ASX code – ALK) recently announced the results of two diamond core holes drilled into the central section of the McPhillamys deposit located within the Moorilda Project near Dubbo, NSW. Newmont Australia Limited is funding the first A\$5 million to earn a 51% stake in the joint venture and can earn up to 75% by funding the project through feasibility stage. What was the purpose of these two holes and what did they reveal?

**MD Ian Chalmers**

The purpose of the two holes was to drill deep below the surface mineralisation that we had identified at McPhillamys in 2006. The intention was to get a better handle on the geology and mineralisation at depth, but also to try and relate it to the results of an Induced Polarisation survey done late last year across McPhillamys. The IP gave a chargeability anomaly, which usually indicates the presence of sulphide mineralisation, covering an area of 1.2 kilometres by 400 metres below the McPhillamys target zone.

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Can you summarise the known extent and indicated grades of the McPhillamys deposit including the broader area beyond the central section?

**MD Ian Chalmers**

In 2006, we conducted a very limited exploration drilling program of 20 air core and 8 RC holes, and one core hole over the top of McPhillamys Hill to investigate a surface geochemical target. That program identified an open-

ended zone of about 600 metres length and about 200 metres width with a 0.2-25 g/t gold envelope, but within which we also intersected substantial gold and zinc mineralisation, such as KP048 with 123 metres at 1.96g/t gold and KPD001 with 77 metres grading 1.65g/t gold and 31 metres at 1.64% zinc.

At that stage we believed we had identified a +1g/t zone roughly 300 metres in north-south extent and about 200 metres wide, divided into a Western and Eastern Zone continuous down to about 150 metres vertical depth. There also appeared to be separate Central and Eastern Zinc Zones.

The recent two core holes demonstrated significant widths of +1g/t gold, such as in KPD002 with 225 metres grading 1.16g/t gold and KPD003 with 263 metres at 1.30g/t gold, and within both holes there were several higher grade intervals (e.g. KPD002 51 metres at 1.67g/t gold and 52 metres at 1.55g/t gold; KPD003 26 metres at 3.75g/t gold and 48.7 metres at 2.74g/t gold). These holes also pushed the depth extent to about 350 metres vertical, and still open. Interestingly we seem to see more continuous gold mineralisation over the 200 metre width at these depths, but the Central Zinc Zone disappeared.

Regionally, last year the JV also tested a number of targets around McPhillamys. These reconnaissance aircore and RC holes intersected several +1g/t gold zones within broader low grade envelopes, but demonstrated that McPhillamys-type mineralisation extended over a 3 to 4 kilometre north-south extent. Also at McPhillamys East, which is located about 700 metres east of McPhillamys, there is a surface geochem target about 1.5 kilometres long with a response not unlike that over McPhillamys Hill. Access limited testing in 2006, but again, broad intervals of low grade gold were intersected.

It's still very early days in understanding the extent of the mineralisation, but the deeper holes have demonstrated that we have a significant gold system at McPhillamys. When combined with the regional prospectivity, we feel that we have barely scratched the surface of the potential of this area.

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When might you concentrate on defining a resource or will you continue to chase extensions of the deposit? What aspect of the deposit are you most keen to explore at this point?

**MD Ian Chalmers**

Newmont manage the joint venture and we are the operators, but we are yet to determine the program for the current 12 months, although a meeting is scheduled for late March. If it was purely up to Alkane our preference would be to define a resource on the main McPhillamys target as soon as possible, probably down to an initial depth of about 200 metres. This would provide a grade-tonnage model that could be subject to ball park economic scenarios, but also to advance the geological understanding of the deposit. However we also see great merit in programming a number of deeper holes to progress the larger tonnage concept.

We would also like to do further step-out air core and RC drilling to the north and south of central McPhillamys with the idea to link up with the other mineralised areas located last year.

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You have stated in your ASX releases that McPhillamys hosts a large gold system. How significant could McPhillamys be for Alkane? Where does it now rank amongst your projects? Do you think you have a commercial project?

**MD Ian Chalmers**

Despite limited drilling, it's fairly obvious that McPhillamys is a very significant gold system and that it could be a significant mining project in the future.

Currently McPhillamys ranks behind the Tomingley Gold Project and the Dubbo Zirconia Project (DZP) in terms of timing, but McPhillamys has the potential to move up the rankings in terms of value – certainly ahead of Tomingley on that measure - if we begin to see multi-million ounce resources emerging, which is possible.

The major focus for Alkane remains Tomingley and we're still targeting mid year to complete the feasibility study with the aim of committing to a commercial development before the end of the year. Tomingley is still our lead project because it's the one that will get Alkane back into production and cash flow. The DZP is a significant, world class project probably six to twelve months behind Tomingley and is also a major focus as you would expect.

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What are the implications of the presence of base metals within the deposit? How can that add value to the project?

**MD Ian Chalmers**

There is scattered copper, silver and lead mineralisation throughout, but it's certainly the zinc content that is most interesting. There are significant zinc zones of 10 to 30 metres wide of over 1% zinc and at today's prices that's worth around \$30/tonne in-ground. So the zinc has significant value and perhaps the best thing is that it's in separate zones to the gold mineralisation and a conceptual operation might involve one open pit, but separate gold and zinc processing plants.

Using core samples from diamond hole KPD001, some basic sighter tests were trialled on the gold mineralisation, and these suggested that better than 90% recovery could be achieved from a standard cyanide leach CIL process. This was very encouraging given the sulphide content of the mineralisation and that we could produce bullion on site. We haven't done any metallurgical work on recovery of the zinc, but simplistically you could see a small flotation plant to produce a zinc concentrate as a separate operation to the gold.

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Has Newmont indicated its intention for future exploration? When do you expect to have a detailed plan on the way forward?

**MD Ian Chalmers**

As previously mentioned we have a meeting scheduled with Newmont for around end March to agree on the program for 2008. It could be good timing for us if the resource drill out program was agreed, as we hope to have the

current program at Tomingley finished by the end of April. Given that we currently have two RC and one core rig on site at Tomingley, these could be moved across to McPhillamys.

In 2007, Newmont said they really wanted to focus on the regional potential around McPhillamys and to assess McPhillamys later on. We've now done both - we've demonstrated significant regional potential and significant potential for McPhillamys itself and it's now up to Newmont to decide the program going forward.

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When might you do preliminary studies that will enable you to calculate initial project parameters?

**MD Ian Chalmers**

We've done back of the envelope numbers, but they're not something we can discuss publicly at this stage because they're based on very preliminary assumptions. However we can say that - based on the various ways we looked at the numbers - McPhillamys has significant commercial potential.

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What implications does this discovery have for the exploration ground that Alkane has in the region?

**MD Ian Chalmers**

We think McPhillamys is the first of its kind in the region because we don't know of any other major gold system sitting in the Silurian aged volcanic rocks in the Central West of NSW. We're still learning about the mineralisation, what controls it and how it fits together, but it opens up new options for styles of gold mineralisation in the region. The same rock sequences continue for at least 20 kilometres along a corridor that includes McPhillamys and we have other projects in the wider region with similar rock sequences.

The knowledge we've gained at McPhillamys is certainly making us rethink some of the geological models we've been using for many years and it encourages us to look at other opportunities which might bring us similar discoveries in the region.

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Thank you Ian.

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